III Policy Initiatives

State budgets for 2013-14 announced initiatives for improving tax revenue and increasing expenditure allocation for certain key sectors. To increase revenue, many states increased taxes on tobacco and liquor products and some states proposed measures for simplifying tax procedures and improving tax compliance. Initiatives to improve non-tax revenue were also announced in some states' budgets. Several states made budgetary provisions for strengthening public distribution systems, besides continuing to accord importance to education, health, agriculture and infrastructure.

1. Introduction

3.1 In their budgets for 2013-14, state governments announced measures to improve tax revenues with emphasis on rationalisation of/ increase in tax rates, widening the tax base, simplifying tax procedures and strengthening computerisation in tax departments. Measures to augment non-tax revenues were also announced in state budgets. Some states announced increases in tax rates for non-essential commodities as a move to align with those prevailing in neighbouring states. This is also being viewed as a step towards their preparedness for implementing the proposed goods and services tax (GST).

3.2 The implementation of policies at the central government level relating to the National Food Security Act 2013 and the financial restructuring plans for state power utilities were also reflected in the state budgets, with some states making budgetary provisions for them in 2013-14. State governments have also sought to create/strengthen appropriate infrastructure for successfully implementing the direct benefit transfers (DBT) scheme. As in the past, important sectors such as agriculture, education, medical and public health, and infrastructure development have been accorded priority in state budgets. The budgetary announcements indicate continuation of policy initiatives to improve transparency, governance and delivery of various public services in 2013-14. This chapter attempts to analyse: (i) the major policy initiatives and proposals announced by state governments, (ii) medium-term fiscal policies of states with regard to deficits, and (iii) policy measures by the Government of India and the Reserve Bank of India which have implications for the finances of state governments.

2. State Governments

3.3 Against the backdrop of a slowdown in economic growth, state governments announced various policy initiatives aimed at achieving fiscal consolidation as stipulated under their FRBM acts. Initiatives relating to tax policy have been shaped broadly by the need to improve own tax revenues through better compliance and alignment of tax rates in anticipation of the proposed GST, while those relating to the expenditure policy are aimed at building necessary infrastructure for the implementation of the DBT scheme and the National Food Security Act, besides increasing allocations for various social and economic services, particularly education, health and power and enhancing the effectiveness of public goods delivery systems.

Revenue Measures

3.4 The major focus of tax policy measures is on augmenting tax revenues through rationalisation of various taxes and tax rates and simplifying tax procedures so as to improve tax compliance. Towards this end, modernisation and computerisation of tax departments and e-payments and e-filing of tax returns have also been announced by the states in their budgets.

3.5 In general, while taxes on necessities have been abolished/reduced in most states, taxes on sumptuary goods such as tobacco and liquor have been raised. Many states have increased taxes on tobacco and tobacco products/cigarettes/*beedis* (Bihar, Jammu and Kashmir, Assam, Punjab, Himachal Pradesh, Kerala, Maharashtra and West Bengal) and liquor products (Andhra Pradesh, Bihar, Kerala, Maharashtra and Madhya Pradesh). Other tax measures announced by the states include increasing tax rates on luxuries provided in hotels (Arunachal Pradesh); value added tax (VAT) on marble, granite and wallpaper (Andhra Pradesh); entry tax on furniture, lift, battery and battery chargers (Bihar); increase in tax on powder, tablets and cubes for preparing non-alcoholic beverages, industrial goods, paver boxes and cosmetics and an increase in the upper VAT rate by 1 per cent (West Bengal); and green cess on petroleum products and increase in stamp duty rates on various financial instruments (Goa). Jammu and Kashmir, the only state which is permitted to tax services, has widened the service tax base by bringing more services into the tax net.

3.6 Measures to widen the tax base include levying stamp duty on the basis of value of stock and securities (Kerala) and amendments to the Bombay Stamps Act 1958 to recover proper stamp duty from financial institutions, banks, non-banking financial companies (Maharashtra). Odisha has announced revision in its stamp duty on instruments of mining lease and renewal of mining lease by amending the Indian Stamp Act 1899, as in force in the state. An Economic Monitoring Cell in the registration department is to be constituted in Kerala to reduce the revenue loss from *chitty*[1]. State-specific measures for improving tax compliance and simplifying tax procedures include reducing the penalty for non-filing returns (Goa); extending the last date of submitting returns and revising various registration fees (Kerala); reducing late fees and e-payment of taxes (Rajasthan, Haryana and Himachal Pradesh); e-refund and e-audit (Meghalaya); and applying business intelligence tools for improving voluntary tax compliance and tracking tax evasion (Odisha).

3.7 To widen the tax net, Kerala has announced a 'one-time incentive to new registrant scheme', allowing exemption of past liabilities to dealers who volunteer to get themselves registered during April-September 2013. The existing 'one-time settlement scheme' for settling pending undervaluation cases in the registration department has also been extended by one more year. Goa has introduced a one-time settlement scheme for the disputed amount.

3.8 Besides raising tax rates in anticipation of the proposed GST, states have initiated reforms to prepare for its smooth implementation through the modernisation and computerisation of tax departments/treasuries/sub-treasuries (Maharashtra, Arunachal Pradesh and Jammu and Kashmir); decentralising and improving the revenue administration by setting up new revenue divisions and urban *mandals* (Andhra Pradesh); setting up GST consultation committees in the commercial taxes department (Karnataka) and overhauling the tax machinery through revamping, restructuring and training of human resources so as to mitigate any losses due to uncertainties with respect to the revenue base of the proposed GST (Kerala).

3.9 Tax policy measures aimed at reducing prices of commodities include exemption from VAT for: (i) certain food items (Bihar, Maharashtra, Uttarakhand and Rajasthan); (ii) certain goods used by school children, senior citizens and poor

[1] A chitty is a contract between the foreman (a person or an institution) and subscribers under which each subscriber agrees to remit a fixed amount of money every month for a number of months.

(Punjab); and (iii) water meters and hand pumps (Maharashtra). VAT has been reduced on: (i) cement concrete blocks, LED bulbs and low cost mobile phones (Goa), (ii) computer parts (Chhattisgarh), (iii) goods such as waterbeds, lead oxide, ice and footwear (Kerala), and (iv) components used in automobile manufacturing (Madhya Pradesh). Other measures include exemption/ reduction in entry tax for certain goods and exemption from entertainment tax for some activities (Madhya Pradesh).

3.10 Some states have also announced measures to increase their non-tax revenues. These include increasing the rate of civic charges, an 'interest waiver scheme' for outstanding electricity bills in order to recover outstanding dues quickly (Arunachal Pradesh), revising royalty rates on coal (Meghalaya) and revising the costs of various forms and charges of government services (Goa).

Expenditure Measures

3.11 Expenditure measures announced by the states indicate continuation of the importance assigned to sectors such as education, medical and public health, social security and welfare, agriculture, rural development, irrigation and power. In preparation for the implementation of the National Food Security Act, several states have accorded priority for improving and strengthening the public distribution system (PDS) and increasing food storage capacities through increased allocation for construction of warehouses. Emphasis has also been placed on the effective implementation of the DBT scheme. Allocations for the power sector have been enhanced to strengthen the financial health of state power utilities and for meeting the commitments under the financial restructuring plan (FRP), announced for state-owned power distribution companies by the Ministry of Power in October 2012. Other important policy initiatives include improving governance, providing transparency in fiscal operations and using information technology to improve operational efficiency.

Education

3.12 As in the past, several measures have been announced by state governments to improve education facilities in their respective states. These include establishing/upgrading schools/colleges (Chhattisgarh, Haryana, Madhya Pradesh, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and West Bengal); constructing kitchen sheds in all schools (Andhra Pradesh); a new fixed deposit scheme 'VIDYA' for girl students of class five for continuing school education (Arunachal Pradesh); setting up of a law university (Haryana); free travel facility for government school students (Himachal Pradesh); an Integrated Educational Management System for creating a database relating to education (Karnataka); new schemes for comprehensive development of universities and government colleges (Odisha); providing free laptops (Sikkim, Tamil Nadu); constructing classrooms (Gujarat); placement cells in educational institutions (Kerala); non-salary grants for private schools aided by the government; and setting up hostels for girls to arrest drop outs in secondary schools (Maharashtra).

Agriculture

3.13 In view of the contribution of agriculture to their GSDP, states have accorded priority for its development in their budgetary allocations. Specific proposals include providing anti-hail nets to horticulturists on subsidy (Himachal Pradesh); increasing subsidies to encourage drip irrigation (Jammu and Kashmir); measures to improve irrigation (Jharkhand); constitution of the Agricultural Prices Commission (Karnataka); setting up a technology centre for vegetables, flowers and fruits and a soil museum for comprehensive information on all varieties of soil (Kerala); and establishing Agri-Market Intelligence and Business Promotion Centres (Rajasthan).

Health

3.14 Many states have come out with new schemes/initiatives for improving the health facilities provided by them. These include strengthening medical services (Andhra Pradesh); establishing primary health centres (Chhattisgarh, Gujarat and Rajasthan); community health centres (Gujarat); hospitals (Tripura); functioning of a hospital in the PPP mode in Ranchi (Jharkhand); free health services for certain groups of people (Karnataka and Rajasthan); setting up an Indian Institute of Public Health (Karnataka); medical cities (Kerala); and rural and urban health institutes (Maharashtra). Other measures include provision of additional vehicles for ambulance services (Madhya Pradesh), a health management information system (Odisha) and strengthening the Indian system of medicine (Tamil Nadu).

Infrastructure

3.15 Some states have announced initiatives for improving road connectivity through construction of roads/bridges (Himachal Pradesh, Karnataka, Gujarat, Jharkhand, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal), infrastructure development through the PPP mode (Haryana, Karnataka and Tamil Nadu), constructing cement concrete roads (Odisha and Arunachal Pradesh), economic stimulus packages for infrastructure investment (Haryana), road development through privatisation, the Nagpur and Pune metro rail projects (Maharashtra) and setting up 'State Rural and Urban Infrastructure Development Initiatives' for creating essential rural and urban infrastructure (Meghalaya).

Power

3.16 The power sector is considered to be vital for growth and many initiatives have been announced in state budgets for this sector including measures such as installing automatic electronic meters in important locations to check distribution and commercial losses (Arunachal Pradesh), strengthening the distribution network and energy audit of transformers (Maharashtra) and installing various technology-based systems such as smart grids, pre-paid meters and automated metering (Kerala). States like Himachal Pradesh, Tamil Nadu, Uttar Pradesh and Rajasthan which are participating in the FRP announced by the central government have made budgetary provisions to meet their commitments for its implementation. Other measures include providing incentives for promoting solar power projects like refund of VAT for inputs; refunding of stamp duty for land purchased for projects; exempting power projects from payment of electricity duty and from wheeling and transmission charges (Andhra Pradesh); increasing the generation capacity in the state sector through central public sector undertakings (CPSUs) and through projects under joint ventures and public private partnerships (Meghalaya); providing funds through equity infusion in five years to expand and strengthen the transmission network (Odisha); and encouraging the roof top power generation scheme in Jodhpur and compact fluorescent lamps for power saving (Rajasthan).

Public Distribution System

3.17 As part of the reforms in targeted PDS and to facilitate the implementation of the National Food Security Act, all states/ UTs are required to undertake end-to-end computerisation of PDS. Accordingly, states have announced measures in their budgets which, *inter alia,* include digitisation of the ration card database and creating records of monthly delivery of PDS items to bring in transparency in the distribution of foodgrains (Arunachal Pradesh, Kerala and Tripura), installing biometric enabled machines (Karnataka, Bihar, Assam, Meghalaya and Maharashtra) and setting up a web portal and toll free call centre (Tripura).

3.18 State governments have also announced plans for improving the supply chain which *inter alia* include increasing the storage capacity by constructing godowns/warehouses (Bihar, Gujarat, Haryana, Tripura and West Bengal)[2] and developing market linkages through modern wholesale markets, sub-market yards and cold storage facilities (Himachal Pradesh).

Institutional Measures and Other Major Policy Initiatives

3.19 Strengthening local bodies and panchayati raj institutions has also been envisaged by some states through devolution based on recommendations/constitution of State Finance Commissions (SFCs). While Himachal Pradesh has accepted the recommendations of its SFC, Tamil Nadu, taking into account the special needs of rural local bodies, has indicated that it will continue to devolve funds between rural and urban local bodies in the existing ratio of 58:42 as against a ratio of 56:44 recommended by its Fourth SFC.

3.20 Over the years, state governments have implemented various institutional measures which have helped them consolidate their finances and improve fiscal discipline and fiscal transparency. Institutional reforms implemented by state governments such as FRBM Acts, VAT, new pension scheme (NPS), ceiling on guarantees and setting up a consolidated sinking fund (CSF) and a guarantee redemption fund (GRF) are given in Table III.1.

Table III.1: Institutional Reforms by State Governments

State		Value Added Tax (VAT) Implemented	Fiscal Responsibility Legislation (FRL) enacted#	New Pension Scheme (NPS) introduced	Ceilings on Guarantee Imposed	Consolidated Sinking Fund (CSF) set up*	Guarantee Redemption Fund (GRF) set up*
1		2	3	4	5	6	7
1	Andhra Pradesh	April 2005	June 2005	September 2004	Yes	Yes	Yes
2	Arunachal Pradesh	April 2005	March 2006	January 2008	Yes	Yes	No
3	Assam	May 2005	September 2005	February 2005	Yes	Yes	Yes
4	Bihar	April 2005	April 2006	September 2005	Yes	Yes	No
5	Chhattisgarh	April 2006	September 2005	November 2004	Yes	Yes	No
6	Goa	April 2005	May 2006	August 2005	Yes	Yes	Yes
7	Gujarat	April 2006	March 2005	April 2005	Yes	Yes	Yes
8	Haryana	April 2003	July 2005	January 2006	Yes	Yes	Yes
9	Himachal Pradesh	April 2005	April 2005	May 2003	Yes	No	No
10	Jammu & Kashmir	April 2005	August 2006	January 2010	No	No	No
11	Jharkhand	April 2006	May 2007	December 2004	No	No	No
12	Karnataka	April 2005	September 2002	April 2006	Yes	Yes	No
13	Kerala	April 2005	August 2003	Yes@	Yes	Yes	No
14	Madhya Pradesh	April 2006	May 2005	January 2005	Yes	No	Yes
15	Maharashtra	April 2005	April 2005	November 2005	Yes	Yes	No
16	Manipur	July 2005	August 2005	January 2005	Yes	Yes	Yes
17	Meghalaya	April 2006	March 2006	April 2010	Yes	Yes	No
18	Mizoram	April 2005	October 2006	September 2010	Yes	Yes	Yes
19	Nagaland	April 2005	January 2010	Yes	Yes	Yes	Yes
20	Odisha	April 2005	June 2005	January 2005	Yes	Yes	Yes
21	Punjab	April 2005	October 2003	January 2004	Yes	No	No
22	Rajasthan	April 2006	May 2005	January 2004	Yes	No	No
23	Sikkim	April 2005	September 2010	April 2006	Yes	No	No
24	Tamil Nadu	January 2007	May 2003	April 2003	Yes	Yes	No
25	Tripura	October 2005	June 2005	No	Yes	Yes	No
26	Uttarakhand	October 2005	October 2005	October 2005	Yes	Yes	Yes
27	Uttar Pradesh	January 2008	February 2004	April 2005	No	No	No
28	West Bengal	April 2005	July 2010	No	Yes	Yes	No
Total		**28**	**28**	**26**	**25**	**20**	**11**

#:All states barring Goa have amended their FRBM Acts. The FRBM Act in Goa is in the process of amendment *: As per RBI record.
@: The state government has announced a New Pension Scheme for workers under Employment Guarantee Scheme in the state budget for 2013-14.

[2] Bihar has proposed to increase the storage capacity of the Bihar State Food Corporation by 10 lakh metric tonnes by 2017 and constructing 211 warehouses in 2013-14. Haryana has proposed to increase the storage capacity by 22 lakh metric tonnes during 2013-14. West Bengal has proposed to construct godowns to hold 3.25 lakh metric tonnes under RIDF XVII and XVIII.

Table III.2a: Revenue Deficit Targets (As Percentage of GSDP)

	2013-14		2014-15		2015-16
	FC-XIII Target	Target set by State	FC-XIII Target	Target set by State	Target set by State
1	2	3	4	5	6
Non-Special Category States					
Andhra Pradesh	0.0	**-0.1**	0.0	-	-
Bihar	0.0	-2.2	0.0	-2.0	-1.9
Gujarat	0.0	-0.6	0.0	-0.5	-0.5
Karnataka	0.0	-0.1	0.0	-0.8	-1.3
Kerala	0.5	0.5	0.0	0.0	0.0
Madhya Pradesh	0.0	-1.3	0.0	-1.4	-1.5
Maharashtra	0.0	0.0	0.0	0.0	0.0
Odisha	0.0	-0.7	0.0	-0.6	-0.5
Tamil Nadu	0.0	-0.1	0.0	-0.2	-0.3
Special Category States					
Arunachal Pradesh	0.0	28.7	0.0	22.9	--
Assam	0.0	-0.0	0.0	-0.0	-0.0
Himachal Pradesh	0.0	-0.1	0.0	-0.1	-0.4
Mizoram	0.0	-4.2	0.0	-4.4	-4.4
Uttarakhand	0.0	-0.7	0.0	-0.8	-0.7

Note: Negative sign indicates surplus.

Medium-term Fiscal Stance of the States

3.21 The Thirteenth Finance Commission (FC-XIII) recommended annual targets for gross fiscal deficit-GDP ratio (GFD-GSDP ratio) and revenue deficit-GSDP ratio (RD-GSDP ratio) up to 2014-15 for individual states. A comparison of the stipulated targets for 2013-14 and 2014-15 with rolling deficit targets set by the state governments in their budgets shows that the states expect to perform better than the FC-XIII targets (Table III.2 (a and b) and Table III.3). The targets set by the states for 2015-16 show further improvements in their revenue accounts.[3] With regard to fiscal deficit, while most states have projected maintaining the GFD-GSDP ratios at the 2014-15 levels, some others have projected further reduction in the ratio (Table III.3).

Table III.2b: Revenue Deficit Targets (As Percentage of Total Revenue Receipts)

	FC-XIII Target	2013-14	2014-15	2015-16
		Target set by State		
1	2	3	4	5
Non-Special Category States				
Andhra Pradesh	-	-0.8	-	-
Chhattisgarh	-	-6.5	-7.0	-8.0
Haryana	-	5.6	*	*
Kerala	-	3.9	0.0	0.0
Rajasthan	-	-1.3	-2.4	-3.5
Tamil Nadu	-	-0.6	-1.2	-1.9
Special Category States				
Assam	-	-7.5	-4.0	-4.3
Himachal Pradesh	-	-0.3	-0.5	-1.8
Jammu & Kashmir	-	-15.6	-16.0	-16.5

'–' : FC-XIII target is expressed as per cent to GSDP.
* projected for revenue surplus.

Table III.3: Gross Fiscal Deficit Targets (As Percentage of GSDP)

	2013-14		2014-15		2015-16
	FC-XIII Target	Target set by State	FC-XIII Target	Target set by State	Target set by State
1	2	3	4	5	6
Non-Special Category States					
Andhra Pradesh	3.0	**2.8**	3.0	**3.0**	**3.0**
Bihar	3.0	2.8	3.0	3.0	3.0
Chhattisgarh	3.0	2.8	3.0	3.0	3.0
Gujarat	3.0	2.6	3.0	2.8	2.8
Haryana	3.0	2.2	3.0	2.2	2.1
Karnataka	3.0	2.8	3.0	3.0	3.0
Kerala	3.0	2.8	3.0	3.0	3.0
Madhya Pradesh	3.0	3.0	3.0	3.0	3.0
Maharashtra	3.0	1.6	3.0	1.6	1.6
Odisha	3.0	2.0	3.0	2.3	2.5
Punjab	3.0	3.0	3.0	-	-
Rajasthan	3.0	2.5	3.0	2.7	2.9
Tamil Nadu	3.0	2.8	3.0	2.8	2.7
Special Category States					
Arunachal Pradesh	3.0	-1.0	3.0	3.0	-
Assam	3.0	1.3	3.0	1.2	1.1
Himachal Pradesh	3.0	2.9	3.0	2.8	2.6
Jammu & Kashmir	3.6	2.7	3.0	3.0	3.0
Mizoram	4.1	0.8	3.0	0.3	0.3
Sikkim	3.0	2.8	3.0	-	-
Uttarakhand	3.0	2.9	3.0	3.0	3.0

[3] Some state governments provide information on the revenue deficit/surplus-revenue receipts ratio under FRBM disclosures.

3. Government of India

3.22 The Standing Committee on Finance tabled its Report on the Constitution Amendment Bill, 2011 for GST in the Parliament on August 5, 2013. The Bill confers simultaneous powers to the Parliament as well as the state legislatures to make laws for levying the GST. As a step towards implementation of GST, the central government has set aside ₹93 billion towards the first instalment of the balance of CST compensation.

3.23 The central government has made a budgetary provision of ₹50 billion as corpus fund to National Bank for Agriculture and Rural Development (NABARD) to finance construction of warehouses, godowns, silos and cold storage units designed to store agricultural produce, both in the public and the private sectors under the NABARD Warehousing Scheme 2013-14. This window will also finance, through the state governments, construction of godowns by *panchayats* to enable farmers to store their produce.

3.24 In view of the progress of *Pradhan Mantri Gram Sadak Yojana* (PMGSY) in several states, the Union Budget 2013-14 announced allocation of a portion of the funds to the new programme, *PMGSY-II* that will benefit states *viz.,* Andhra Pradesh, Haryana, Karnataka, Maharashtra, Punjab and Rajasthan. The guidelines for PMGSY-II were issued in June 2013. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is being continued in the Twelfth Plan and the purchase of up to 10,000 buses, particularly by the hill states, is to be supported by the central government in 2013-14.

3.25 Encouraged by the success of bringing green revolution to eastern India which reflected in increased contribution to rice production by Assam, Bihar, Chhattisgarh and West Bengal, the Union Budget for 2013-14 has made a budgetary allocation of ₹10 billion for extending support to the eastern states. In view of the problem of stagnating yields and over-exploitation of water resources faced by the original green revolution states, the central government has announced a crop diversification programme to be implemented in the states of Haryana, Punjab and Western Uttar Pradesh so as to promote technological innovation and encourage farmers to choose crop alternatives.

3.26 To improve the road infrastructure in the north-east, the central government has sought assistance of the World Bank and the Asian Development Bank to build roads in the north-eastern states and connect them to Myanmar.

3.27 The government has decided to restructure the centrally sponsored schemes (CSS) and additional central assistance (ACA) schemes into 66 schemes (including 17 flagship schemes) from 137 schemes at present. Details of the restructured scheme and its implications for the states has been covered in Chapter II of this report.

3.28 In the Union Budget for 2013-14, the government proposed to evolve new criteria for determining backwardness and reflect them in future planning and devolution of funds. Accordingly, a Committee for evolving a composite development index of states was set up under the Chairmanship of Dr. Raghuram Rajan in May 2013. The Committee submitted its report in September 2013 (Box III.1).

3.29 The central government promulgated a National Food Security Ordinance which was repealed and replaced by the National Food Security Act (NFSA) 2013. The Act, aimed at providing a legal right on highly subsidised foodgrains to 67 per cent of the country's population, was enacted on September 12, 2013. Although the Act is an initiative by the central government, state

Box III.1:
Report of the Committee for Evolving a Composite Development Index of States

The central government constituted the Committee for Evolving a Composite Development Index of States (Chairman: Dr. Raghuram Rajan) in May 2013 with a view to suggest methods for identifying backwardness of the states using a variety of criteria and recommend how the criteria may be reflected in future planning and devolution of funds from the central government to the states. The Committee submitted its report in September 2013. The Committee has evolved a multi-dimensional composite development index of the states which factors in both the states' development needs as well as their development performance. The index of development is an average of ten sub-components, *viz.*, (i) monthly per capita consumption expenditure, (ii) education, (iii) health, (iv) household amenities, (v) poverty rate, (vi) female literacy, (vii) percent of scheduled caste-scheduled tribe population, (viii) urbanisation rate, (ix) financial inclusion, and (x) connectivity.

Based on the scores in the composite development index, the Committee has classified the states into 'least developed' (score 0.6 and above), ' less developed' (scores below 0.6 and above 0.4) and 'relatively developed' (score below 0.4). Using the index, the Committee has identified the 'least developed' states as Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Meghalaya, Odisha, Rajasthan and Uttar Pradesh. The Committee has suggested a general method for allocating funds from the centre to the states based on a fixed basic allocation of 0.3 per cent of overall funds to each state, to which will be added a share stemming from need and performance of the state as follows:

Need based points to state i = [0.8* share of population of state i + 0.2 *share of area of state i]*[(under) development index for state i] [2]

Performance based points to state i = points to state i based on need*change in (under) development index for state i * performance weighting parameter.

As there are 28 states included for the construction of index, 8.4 per cent of funds would be allocated as a fixed basic allocation. Of the remaining 91.6 per cent, 3/4th of it would be allocated based on need and 1/4th, based on performance. As the reward for performance is multiplied by need, the formula rewards underdeveloped states more for an improvement in the index.

On average each state gets 3.6 per cent of allocation of funds. There is considerable variation across states. The shares range from 0.30 per cent to 16.41 per cent with a standard deviation of 4.02 per cent. While some states would gain under the new approach, others would lose when compared with allocation shares based on formulas used for transfers through the Planning Commission or the Finance Commission routes. However, the Committee noted that relative to the Finance Commission formula, only five states lose one percentage point or more of their share.

The recommendations of the Committee include:

- Allocation of some of the development funds by the centre to the states be made on the basis of the framework given by the Committee.
- the proposed underdevelopment index be updated on a quinquennial basis and performance be measured relative to the last update.
- the index and the allocation formula be re-examined after 10 years and revisions proposed based on experience.
- 'least developed' states, as identified by the index, be eligible for other forms of central support that the central government may deem necessary to enhance the process of development.
- the suggested approach is meant to channel some fund allocations based on need and performance; other methodologies which serve different purposes, should be used in conjunction with the suggested approach to allocate other funds.

The Committee has observed that the demand for funds and special attention of different states will be more than adequately met by the twin recommendations of the basic allocation of 0.3 per cent of overall funds to each state and the categorisation of states that score 0.6 and above as 'least developed' States. According to the Committee, these two recommendations, along with the allocation methodology, effectively subsume what is currently classified as 'special category'.

and local governments are required to perform certain functions for the smooth implementation of the Act (Box III.2).

3.30 In a meeting held in October 2013, to review the preparations for the implementation of the NFSA, the central government has assured to

Box III.2:
National Food Security Act 2013- Role of the State Governments

The National Food Security Act 2013 was enacted in September 2013. The salient features which are relevant to the states are as follows:

- State/UT governments are required to identify eligible households within the rural/urban coverage determined by the centre for each state. A period of one year from the commencement of the Act has been given for this purpose. The state governments will continue to receive foodgrains from the centre under the existing targeted public distribution system (TPDS) till the completion of identification process.
- The central and state governments shall endeavour to progressively undertake necessary reforms in the TPDS in consonance with the role envisaged for them in this Act.
- In case of non-supply of foodgrains or meals to entitled persons, the concerned state/UT governments will be required to provide food security allowance as may be prescribed by the central government to the beneficiaries.
- All state governments are required to put in place an internal grievance redressal mechanism which may include call centres, help lines, designation of nodal officers, or such other mechanism as may be prescribed; they may also appoint a grievance redressal officer for expeditious and effective redressal of grievances and enforce the entitlements of the Act.
- States are also required to constitute a State Food Commission for the purpose of monitoring and review of implementation of the Act.
- For efficient operations of the TPDS, all state governments are required to (i) create and maintain scientific storage facilities at the state, district and block levels, being sufficient to accommodate foodgrains required under the TPDS and other food based welfare schemes; (ii) suitably strengthen capacities of their food and civil supplies corporations and other designated agencies; and (iii) establish institutionalised licensing arrangements for fair price shops, in accordance with the relevant provisions of the Public Distribution System (Control) Order, 2001 made under the Essential Commodities Act, 1955, as amended from time to time.
- The state governments may assign, by notification, additional responsibilities for implementation of the TPDS to the local authority.
- State governments may, continue with or formulate food or nutrition based plans or schemes providing for benefits higher than the benefits provided under this Act, from their own resources.
- Consistent with this Act, state governments may notify their rules to carry out the provisions of this Act.

protect the foodgrains allocation to states at the average of annual off-take for the last three years. It was also decided that the state governments will ensure timely completion of the storage capacities sanctioned under Private Entrepreneurs Guarantee (PEG) scheme. With the delinking of the coverage under NFSA from poverty estimates and the irrelevance of the hitherto followed system of above the poverty line (APL) and below the poverty line (BPL) beneficiaries, it has been decided that the states/UTs should devise appropriate mechanism for distribution of subsidised sugar, within the quotas fixed for each state. Other issues relating to the states which have been resolved in the meeting include (i) preparation of time bound programme for correct identification of beneficiaries and completion of computerisation of TPDS; (ii) issuance of new ration cards; (iii) setting up of grievance redressal authorities at the district and state levels; (iv) strengthening of existing distribution system and (v) taking up of door-step delivery of foodgrains. In response to concerns raised by the states, the centre has proposed to set up two committees, *viz.,* (i) Committee of State Food Secretaries, to sort out issues of sharing expenditure towards intra-state transportation and handling of foodgrains, margins to fair price shop dealers and other implementation issues to ensure speedy implementation of NFSA and (ii) Ministerial level Committee, to sort out issues of finance and infrastructure to provide all required assistance on priority basis for the implementation of the Act.

3.31 With a view to continue effective de-hoarding operations by state governments under Essential Commodities Act, 1955 (by fixing stock limits and licensing requirements in respect of pulses, edible oils and edible oilseeds) the Union Cabinet has extended the validity of the central order in this respect for a further period of one year *i.e.,* October 1, 2013 to September 30, 2014. This would help in the efforts being taken by the state governments to tackle the problem of rising prices and also improve the availability of these commodities to general public, especially the vulnerable sections.

4. Reserve Bank of India

3.32 The aggregate normal ways and means advances (WMA) limit for the state governments, inclusive of the Union Territory of Puducherry, were placed at ₹102.40 billion for the year 2013-14, unchanged from the limits fixed in 2006-07. On a review, the WMA limit has been increased by 50 per cent of the existing limits to ₹153.60 billion with effect from November 11, 2013. Other terms and conditions of the WMA scheme have been left unchanged.

3.33 Consequent to the submission of the Report of the Committee on Guarantee Redemption Fund (GRF) (details of the report are given in Chapter V) and subsequent implementation of its recommendation, states have been given the option to withdraw excess fund over and above 5 per cent of outstanding guarantees of the previous year.

5. Conclusion

3.34 The states, in their budgets for 2013-14, have proposed measures to increase their tax and non-tax revenues for improving their fiscal health. Keeping in view the inelastic demand of intoxicants such as tobacco and liquor products, many states have increased taxes on these items while providing tax relief to some essential commodities. Some states announced measures to improve tax compliance and have raised user charges to increase their revenues. On the expenditure side, states have announced initiatives to encourage computerisation of PDS, increase storage capacity through construction of godowns/warehouses, and develop infrastructure. Certain policy measures announced by the central government in 2013-14, such as the restructuring of the centrally sponsored scheme and the enactment of the NFSA, would require active involvement by the state governments in terms of higher responsibilities in implementation. The existing normal WMA limits of the states, that help them meet any short-term funding gaps, have been raised by 50 per cent in November 2013 by the Reserve Bank.